

The President's Daily Brief

May 5, 1976

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Exempt from general
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exemption category 3B(1)(2)(3)
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the Director of Central Intelligence

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FOR THE PRESIDENT ONLY

MEXICO: In a major shift of policy, Mexico announced yesterday that the country's oil wealth is substantially greater than previous official estimates and that it would join OPEC as soon as it is invited.

Minister of National Patrimony Alejo stated that Mexican oil reserves probably are on the order of 30 to 60 billion barrels. This would put Mexican reserves on a par with Kuwait's and roughly three times the proved reserves of the US, excluding Alaska.

Our current estimate of Mexican reserves parallels the newly announced figure. We expect, moreover, that Mexico eventually will confirm reserves at the 60 billion barrel level. This would allow Mexico to increase production to 6 million barrels a day by 1985 if it can obtain the necessary equipment to develop its oil fields.

The release of these hitherto closely held estimates probably means that Mexico has decided to develop its oil potential rapidly to bolster its economy. The current pressure on Mexico to devalue its peso has enhanced the arguments of those advocating rapidly increasing oil exports.

The timing of Alejo's announcement apparently was intended to end the flight of speculative capital from Mexico and strengthen the peso on international money markets. This is likely to happen in the short run, but the underlying pressures for a devaluation--Mexico's high rate of inflation relative to its trading partners--will remain.

Yesterday's announcement coincides with the concerted efforts of Mexican officials to convince the international financial community that its economic prospects are bright.

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Mexican entry into OPEC will have little impact on either Mexico or the cartel. Mexico already is marketing its oil at OPEC price levels and probably will not be constrained in its production policy by OPEC membership.

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EGYPT: Egyptian Minister of War Gamasy told Ambassador Eilts last week that Cairo's failure to receive substantial military assistance from the US has not hurt morale in the Egyptian armed forces. Gamasy said he has advised Egyptian commanders not to expect large-scale US aid. President Sadat, however, still hopes to receive significant amounts of US arms in 1977.

Despite Gamasy's statements about morale, other recent information has suggested some restiveness in the Egyptian military. Officers reportedly are unhappy with the diminished capabilities of the armed forces following the Soviet Union's refusal to provide Egypt with arms and spare parts.

Gamasy claimed that Egypt has made plans to replace or rehabilitate obsolete Soviet equipment with arms supplies from France, Britain, Yugoslavia, and other unspecified countries, presumably including China. He acknowledged that the military is suffering from degraded equipment and a shortage of spare parts. The problem is most acute in the air force, which does not have enough operational aircraft to permit pilots to maintain a high degree of proficiency.

Gamasy confirmed declining morale in the air force as a result of these cutbacks in flying time, and said that low and middle ranking officers in all services are troubled by the high cost of living and the shortage of low cost housing. He acknowledged that unspecified "outside parties" have tried, but failed, to penetrate the military and create discontent. He observed that there is some extreme

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right-wing sentiment in the military, but insisted that these elements are not disloyal to the government or its policies.

Gamasy's apparently candid assessment of morale in the Egyptian military is distinctly more com-25X1 placent than other assessments offered recently by leading civilian politicians.

Despite his professed lack of concern, Gamasy may have been attempting to remind the US that there is a direct connection between good morale and a continuing supply of arms.

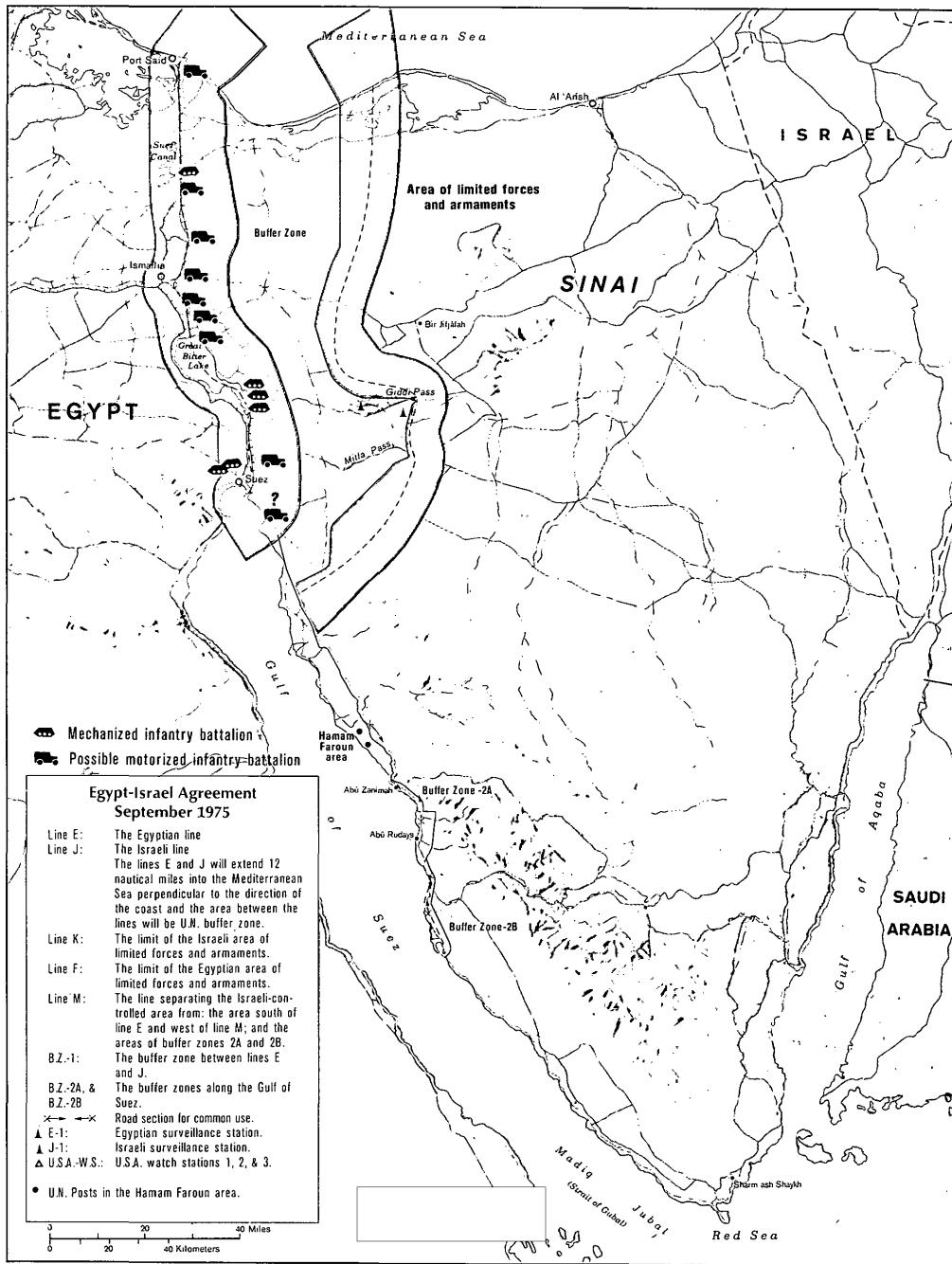
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POLAND-EGYPT: Poland reportedly has decided not to sell T-54 and T-55 medium tanks to Egypt.

Warsaw probably was pressured by Moscow to back out of the deal. The Poles produce the Soviet-designed tanks under license, and in late 1975 reportedly planned to sell Egypt 150 tanks for \$30 million.

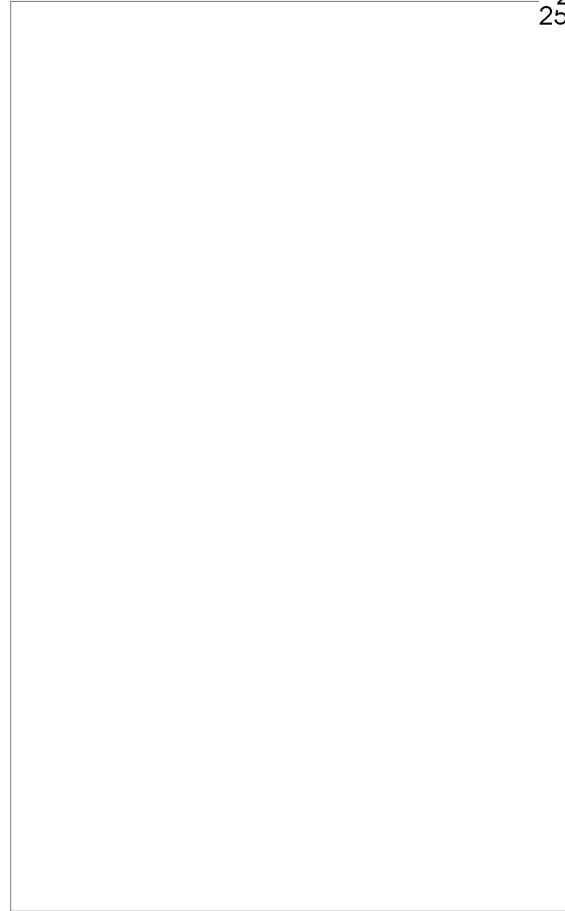
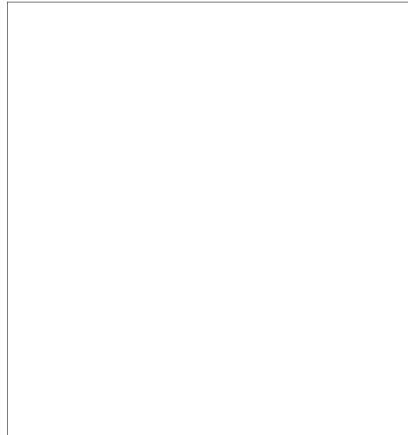
It is likely that Cairo wanted the Polish-built tanks to replace equipment that is inoperable because of a shortage of spare parts, rather than to form new armored units. Overhead photography shows that the number of tanks in Egypt's motorized infantry divisions has dropped from 31 to 22 per battalion since the October 1973 war.

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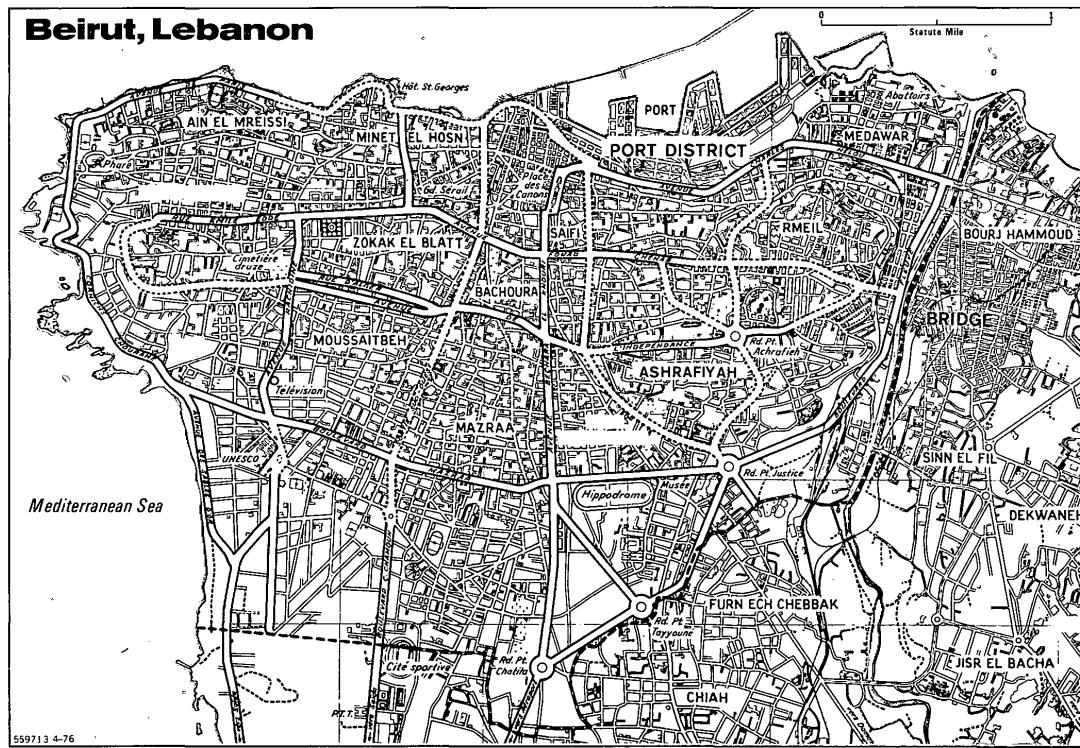
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EGYPT-ISRAEL-SYRIA:



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LEBANON: The struggle between Christian and leftist militiamen for control of Beirut's port intensified yesterday, despite a call from the tripartite truce committee for a new cease-fire. Both sides are using armored vehicles and heavy artillery, and neither shows signs of running short of ammunition.

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The leftists have made some new advances but still have not penetrated the Christians' main defensive line. [redacted]

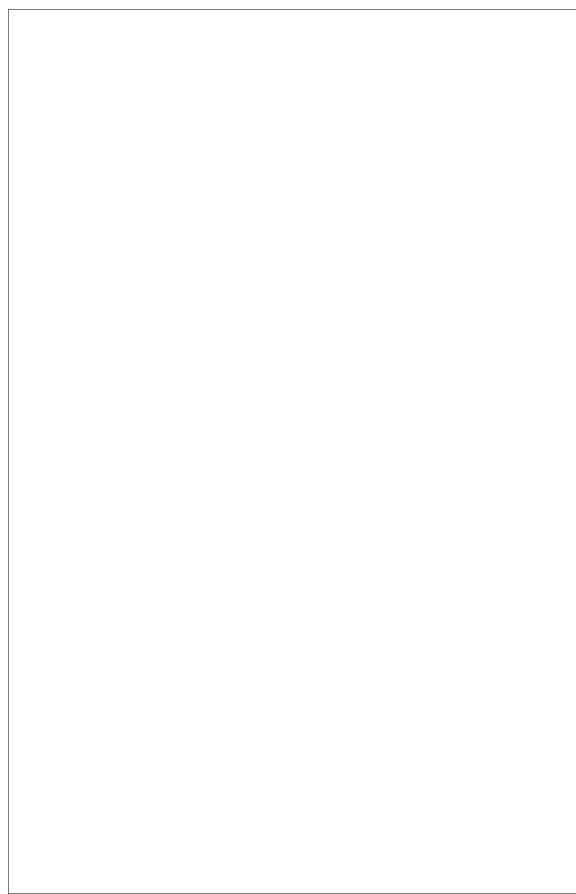
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[redacted] The Christians must control the port in order to protect Ashrafiyah, their main stronghold in Beirut, and to maintain a major supply corridor north to Juniyah.

Although fighting on the ground has not yet spread beyond the port district, artillery fire was exchanged throughout the night between adjacent Christian and Muslim neighborhoods. The presence of Palestine Liberation Army troops in many disputed areas of the capital has probably helped contain the fighting.

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Jumblatt issued a statement yesterday in which he called for a "roundtable conference" in France following the presidential election. Jumblatt has suggested this before in an effort to gain concessions from the Syrians, who adamantly oppose any proposals that would loosen their control over political negotiations.

Jumblatt's announcement of the proposal just after a meeting with Ambassador Brown may prompt fresh charges from Syria of US interference.

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USSR-MOZAMBIQUE: Mozambican President Machel will make an official visit to the USSR at mid-month. His planned trip to Moscow follows closely upon visits to the Soviet Union by Mozambique's ministers of defense, commerce, and information.

Machel will almost certainly request increased Soviet military and economic assistance. Moscow--eager to increase its influence in Maputo at the expense of Peking--is likely to respond affirmatively. The question of Soviet aid to Rhodesian insurgents based in Mozambique will also probably be discussed.

Soviet media have alleged that Machel refused an invitation from Washington to meet Secretary Kissinger during his current African tour. The announcement by Tass of Machel's coming visit to Moscow may have been intended to embarrass the Secretary.

NOTES

Dissident intellectuals in Poland are circulating documents calling for more democracy, freer travel, the unimpeded right of public expression, and a foreign policy more independent of the USSR.

An undated, unsigned typewritten manifesto comprehensively criticizing Polish foreign and domestic policy was obtained by our embassy in Warsaw last week. The document does not urge any direct, specific action, nor is it a call to violence. The regime has so far avoided reacting strongly to this and similar documents circulated over the past six months.

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Cuba's trade deficit will reach an estimated \$850 million in 1976, nearly double the 1975 level. This anticipated rise underscores Cuba's continued dependence on massive foreign economic assistance.

About \$550 million of the trade deficit will be covered by drawings on Western trade credits. To square its account with the Communist world, Havana will require about \$235 million in direct Soviet balance-of-payments support and \$65 million in credits from Eastern Europe. In addition, Soviet subsidies of Cuba's sugar exports and petroleum imports will amount to approximately \$1.2 billion.

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Kuwait
USSR
new arms
agreement.

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The Kuwaitis have said that the agreement, which may be worth up to \$300 million, will be formally signed when Soviet Foreign Minister Gromyko eventually visits Kuwait. It would be Kuwait's first major arms deal with a Communist country and Moscow's first major arms sale to one of the conservative Arab sheikhdoms. The accord probably would include SA-7 missiles.

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